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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

28
#92-22610

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended June 30, 1992 or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from _____ to _____

Commission File No. 0-17097

Franklin First Financial Corp.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2513327
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification Number)
44 West Market Street, Wilkes-Barre, PA (Address of principal executive offices)	18773 (Zip Code)

Registrant's telephone number, including area code:
(717) 821-7100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES __X__ NO _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

TITLE OF CLASS	Outstanding at August 12, 1992
Common Stock, $.01 par value	5,773,004 shares

(This report contains 28 pages)

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FRANKLIN FIRST FINANCIAL CORP. AND SUBSIDIARY

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FRANKLIN FIRST FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollars in thousands)

ASSETS

	June 30, 1992	December 31, 1991
Cash and non-interest bearing deposits	$ 5,370	$ 6,304
Interest bearing deposits in banks	46,220	41,098
Investment securities:		
Held for sale, at lower of cost or market	-	37,552
Held for investment (Market value $14,183, 1992 $14,245, 1991)	14,001	13,917
Loans receivable, net: (Allowance $9,684, 1992 $8,847, 1991)		
Held for sale, at lower of cost or market	13,289	-
Held for investment	605,504	598,424
Mortgage-backed securities, net (Market value $380,300, 1992, $336,270, 1991)	373,635	327,571
Interest receivable	8,554	8,661
Investment in Federal Home Loan Bank, at cost	7,884	6,796
Real estate owned, net	4,827	4,499
Premises and equipment, net	8,752	8,492
Excess of cost over fair value of assets acquired, net of accumulated amortization	2,576	2,711
Other assets	18,595	8,734
Total assets	$1,109,207	$1,064,759

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:		
Savings deposits	$ 773,308	$ 733,563
Short-term borrowings	104,841	108,794
Borrowings from Federal Home Loan Bank	65,000	66,000
Collateralized mortgage obligations, net	39,436	41,846
Advance payments by borrowers for taxes and insurance	10,647	7,108
Other liabilities	22,900	14,038
Total liabilities	1,016,132	971,349
Shareholders' equity:		
Preferred stock, $.01 par value, authorized 10,000,000 shares; none issued		
Common stock, $.01 par value, authorized 20,000,000 shares; issued and outstanding 7,212,533 shares 1992; 7,196,400 shares 1991	48	48
Additional paid-in capital	36,045	35,949
Retained earnings, substantially restricted	69,941	65,490
	106,034	101,487
Less treasury stock, at cost, 1,439,529 shares 1992; 1,064,779 shares 1991	12,959	8,077
Total shareholders' equity	93,075	93,410
Total liabilities and shareholders' equity	$1,109,207	$1,064,759

See notes to consolidated financial statements

FRANKLIN FIRST FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Dollars in thousands, except per share amounts)

	Six Months Ended June 30		Three Months Ended June 30	
	1992	1991	1992	1991
Interest income:				
Loans	$31,182	$27,653	$15,745	$13,952
Mortgage-backed securities	13,577	10,657	6,794	6,235
Investments	1,437	3,769	652	1,580
Total interest income	46,196	42,079	23,191	21,767
Interest expense:				
Deposits	20,735	22,729	10,071	11,398
Short-term borrowings	2,093	1,285	1,035	1,157
FHLB borrowings	2,267	1,152	1,105	579
Collateralized mortgage obligations	1,960	2,145	967	1,059
Total interest expense	27,055	27,311	13,178	14,193
Net interest income	19,141	14,768	10,013	7,574
Provision for loan losses	1,500	1,000	750	500
Net interest income after provision for loan losses	17,641	13,768	9,263	7,074
Other income:				
Other fees and charges	1,823	1,404	945	729
Gain (loss) on sale of:				
Loans	679	102	663	-
Mortgage-backed securities	-	(411)	-	(411)
Investments	(2)	-	4	-
Other	10	13	1	10
Total other income	2,510	1,108	1,613	328
Other expense:				
Compensation and employee benefits	4,001	3,798	1,966	1,882
Occupancy and equipment	1,197	1,111	577	583
Marketing	757	405	421	171
Data processing	514	489	268	243
SAIF insurance	918	822	459	411
Other	3,208	2,229	1,675	1,169
Total other expense	10,595	8,854	5,366	4,459
Income before income tax expense	9,556	6,022	5,510	2,943
Income tax expense	3,800	2,349	2,200	1,148
Net income	$ 5,756	$ 3,673	$ 3,310	$ 1,795
Earnings per share	$ .93	$ .55	$ .54	$ .27

See notes to consolidated financial statements

FRANKLIN FIRST FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(UNAUDITED)
(Dollars in thousands)
Six months ended June 30, 1992

	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings	Treasury stock	Total
Balance, December 31, 1991	7,195,658	$48	$35,949	$65,490	$(8,077)	$93,410
Cash dividend, at $.325 per share	-	-	-	(1,305)	-	(1,305)
Exercise of stock options	16,875	-	96	-	-	96
Net income for the six months ended June 30, 1992	-	-	-	5,756	-	5,756
Treasury stock acquired	-	-	-	-	(4,882)	(4,882)
Balance, June 30, 1992	7,212,533	$48	$36,045	$69,941	$(12,959)	$93,075

See notes to consolidated financial statements

FRANKLIN FIRST FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 1992 AND 1991
(Unaudited)

	1992	1991
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$ 5,756	$ 3,673
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	870	844
Provision for loan losses	1,500	1,000
Provision for loss on real estate owned	418	-
Amortization of loan fees	(1,101)	(658)
Accretion/amortization of purchased premiums and discounts	(1,501)	(4,198)
(Gain) loss on sale of:		
Loans	(679)	(102)
Mortgage-backed securities	-	411
Investments	2	-
Real estate owned	-	7
(Increase) in:		
Interest receivable	107	(2,136)
Other assets	(10,108)	(3,310)
Increase (decrease) in other liabilities	8,862	978
Net cash provided by (used in) operating activities	4,126	(3,491)
Cash flows from investing activities:		
Loans:		
Originations, net of repayments	(66,607)	(38,829)
Sales	44,841	3,046
Mortgage-backed securities:		
Purchases	(81,187)	(134,326)
Repayments	36,906	15,960
Investments:		
Purchases	(5,739)	(7,995)
Repayments	-	800
Sales and maturities	41,835	14,645
Sales of real estate owned	931	136
Purchase of premises and equipment	(688)	(145)
Net cash used in investing activities	(29,708)	(146,708)

(Continued)

FRANKLIN FIRST FINANCIAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

SIX MONTHS ENDED JUNE 30, 1992 AND 1991

	1992	1991
	(Dollars in thousands)	
Cash flows from financing activities:		
Net savings deposits	26,278	16,509
Interest credited to savings deposits	13,467	15,912
Net increase (decrease) in:		
Short term borrowings	(3,953)	95,011
Advance payments from borrowers for taxes and insurance	3,539	3,404
Repayments:		
Federal Home Loan Bank	(1,000)	-
Collateralized mortgage obligations	(2,470)	(1,740)
Issuance of common stock	96	42
Cash dividend paid	(1,305)	(1,420)
Repurchase of common stock	(4,882)	(2,445)
Net cash provided by financing activities	29,770	125,273
Net increase (decrease) in cash and cash equivalents	4,188	(24,926)
Cash and cash equivalents, beginning of period	47,402	52,730
Cash and cash equivalents, end of period	$ 51,590	$ 27,804
Supplemental disclosure:		
Cash paid during the period:		
Interest	$ 27,536	$ 27,156
Income taxes	3,277	2,076
Non-cash item:		
Acquisition of real estate in settlement of loans, including in-substance foreclosures	$ 1,677	$ 494

See notes to consolidated financial statements

FRANKLIN FIRST FINANCIAL CORP. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information pertaining to the six and three month periods ended June 30, 1992 and 1991 is unaudited.

(1) In the opinion of management, the accompanying unaudited consolidated financial statements of Franklin First Financial Corp. and Subsidiary (the "Company") contain all adjustments (consisting of only normal recurring accruals) necessary for a fair presentation of the Company's financial condition, results of operations and cash flows for the periods and at the dates indicated. The results for the interim periods are not necessarily indicative of the operating results for the full fiscal year.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and notes necessary for a presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. These interim financial statements should be read in conjunction with the audited financial statements and footnote disclosures in the Company's Annual Report to Shareholders for the fiscal year ended December 31, 1991.

(2) In April, 1992 the Company announced a three-for-two split of its common stock effected in the form of a dividend. The stock was paid on June 1, 1992 to shareholders of record at May 15, 1992. Shareholders received cash in lieu of fractional shares resulting from the stock split. 1991 per share amounts have been restated to reflect the stock split.

(3) Earnings per share were calculated by dividing the net income of the Company by the weighted average number of shares of common stock and common stock equivalents outstanding of 6,176,525 and 6,617,014 for the six month periods and 6,078,930 and 6,710,758 for the three months periods, respectively.

(4) In July, 1992, Franklin declared a quarterly $.11 per share dividend payable on September 1, 1992 to shareholders of record on August 15, 1992.

Item 2. Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations

General

Franklin First Financial Corp. was formed as a Pennsylvania corporation in May, 1988 and is the sole shareholder of Franklin First Savings Bank (the "Bank"), which converted from a federally chartered savings and loan association to a federally chartered stock savings bank as of August 23, 1988, and further converted to a Pennsylvania chartered savings bank on April 17, 1992.

At June 30, 1992, the Company had assets of $1.1 billion, total deposits of $773.3 million and shareholders' equity of $93.1 million. In terms of assets and equity, the Bank is the largest SAIF-insured institution headquartered in the nine county area of Northeastern Pennsylvania.

Management attributes the Company's success, in part, to its ability to serve the varied banking needs of the Luzerne County area and the Pocono Region. In Luzerne County, with its relatively stable population, the Bank serves a community which is generally mature with an orientation toward savings. By contrast, the Pocono Region has been a growing area, although recent growth has slowed from the rapid pace exhibited during the 1980s. Accordingly, the Company has developed a relatively strong deposit gathering capability in the Wilkes-Barre area in addition to its loan origination capability, while the Pocono Region has generated a relatively strong demand for residential mortgage loans. The following table sets forth certain information regarding deposit liabilities at June 30, 1992 and mortgages originated (but not purchased from others) during 1992:

	Deposit Liabilities at June 30, 1992 (1)		Residential Mortgage Loans Originated in 1992 (1)			
	Dollar Amount (In millions)	(%)	Number of Loans	(%)	Principal Amount of Loans (In millions)	(%)
Luzerne County	$653.6	84.5%	788	53.8%	$45.5	49.5%
Pocono Region (2)	31.8	4.1%	451	30.8%	32.4	35.3%
Other	87.9	11.4%	226	15.4%	14.0	15.2%
TOTAL	$773.3	100.0%	1,465	100.0%	$91.9	100.0%

(1) Deposits based on offices where deposit accounts were opened. Loans based on location of secured property and include undisbursed proceeds of construction loans.

(2) The Pocono Region includes Monroe County, where the Bank has a full service branch and a lending office, Pike County, where the Bank has a lending office and northern Carbon County and Wayne County, where some of its borrowers reside although the Company has no office location.

Liquidity and Capital Resources

Liquidity is a measure of the ability to meet present and potential funding needs, obligations and commitments. The Company's liquidity is the ability to meet the borrowing needs and deposit withdrawal requirements of customers, pay current expenses and to support asset growth.

The Company's principal sources of funds are deposits and loan repayments (including interest, amortization of principal and prepayments). Additional funding sources include FHLB advances, reverse repurchase agreements, sales of loans and investments, earnings retained and to a lesser extent, a line of credit with a local bank. In addition, in June, 1989, $51.6 million of Collateralized Mortgage Obligations (CMOs) were issued, with the net proceeds used to reduce existing debt and to fund loan originations. At June 30, 1992, the Bank had outstanding commitments to fund loans totaling $34.0 million and commitments on home equity lines of credit, net of advances, totaling $12.5 million as well as unused commercial lines of credit available to its borrowers totaling $1.7 million. These commitments were issued in the normal course of business and it is anticipated that funding will be provided from customary sources.

Savings deposits have increased by $39.7 million, including interest credited of $13.4 million, during the six months ended June 30, 1992, compared to an increase in savings deposits of $32.4 million, including interest credited of $15.9 million, during the six months ended June 30, 1991.

The payment of dividends by the Bank to the Company is subject to certain regulatory restrictions. At June 30, 1992 $15.0 million was available for the payment of dividends by the Bank to the Company. The dividend payout ratio for the Company for the six month period ended June 30, 1992 was 23.3%.

As one method of enhancing shareholder value, the Company has initiated several stock repurchase programs. During the first program, which began during the third quarter of 1990 and was completed during the first quarter of 1991, the Company repurchased 699,600 (adjusted for three for two stock split effective June 1, 1992) shares of its outstanding common stock for $4.7 million. In July, 1991, the Company announced its second program to repurchase up to 10 percent of its outstanding shares or approximately 633,143 (adjusted for three for two stock split effective June 1, 1992) shares. In May, 1992 this second 10 percent program was completed. The Company is currently pursuing an additional 5 percent buyback program. At June 30, 1992 the Company had repurchased a total of 20.0% of its outstanding, common stock. The Company has not set any date by which the additional shares will be acquired, and further purchases may extend over the next few fiscal quarters. The Company's net worth, net of the repurchases and anticipated repurchases will still be well above the amount currently required for minimum regulatory capital.

As of April 17, 1992, the Bank was granted a charter by the Pennsylvania State Department of Banking, and converted from a federal stock savings bank to a state stock savings bank. The Bank's primary federal regulator is the Federal Deposit Insurance Corporation.

As required by FIRREA, the FDIC has established minimum capital requirements for all insured institutions under its authority. Effective April 10, 1991, the FDIC revised its capital regulations by replacing primary and total capital with a Tier I (Core) capital definition. Under the new regulations, the Bank is required to maintain a minimum level of 3% Tier I capital as a percentage of regulatory assets. In March, 1989, the FDIC adopted a "statement of policy on risk-based capital" to supplement existing capital requirements. The statement states that by December, 1992, banks will be expected to meet a minimum risk-based capital ratio of 8%, of which at least 4% must be in Tier I or Core capital.

In addition, the Federal Reserve Board has approved final minimum leverage ratio guidelines (Tier I capital to total assets, less goodwill) for bank holding companies. These guidelines provide a minimum leverage ratio of 3% for bank holding companies that meet certain specified criteria, including that they have the highest regulatory rating. All other bank holding companies will be required to maintain a leverage ratio of 3% plus an additional cushion of 100 to 200 basis points. The guidelines also indicate that when appropriate, including when a bank holding company is undertaking expansion, engaging in new activities or otherwise facing unusual or abnormal risk, the Board will continue to consider a "tangible Tier 1 leverage ratio" (deducting all intangibles) in making an overall assessment of capital adequacy.

The following table details the Bank's regulatory capital ratios as of June 30, 1992:

Capital Analysis (amounts in thousands)	
Capital:	
Shareholders' equity	$ 88,368
Less intangible assets	2,623
Tier I capital	85,745
Allowable portion of allowance for loan losses	8,156
Tier II capital	8,156
Total capital	93,901
Total risk-weighted assets	$543,715
Ratios:	
Tier I capital to risk-weighted assets	15.8%
Tier II capital to risk-weighted assets	1.5%
Total capital to risk-weighted assets	17.3%
Leverage ratio	7.7%

Asset and Liability Management

A principal part of Franklin First's asset/liability management has been to reduce its exposure to interest rate fluctuations by matching more closely the effective maturities and repricing dates of its assets and liabilities. The Company's strategy has involved: (i) increasing the interest sensitivity of its assets by originating and purchasing adjustable rate mortgages (ARMs), by originating consumer and commercial loans and by decreasing the Bank's portfolio of long-term fixed rate mortgage loans; (ii) emphasizing passbook and NOW account deposits and lengthening the effective maturity of deposits and borrowings; (iii) entering into interest rate swap agreements as market conditions warrant.

Generally, as interest rates on fixed rate mortgage loans fall, the demand for ARMs also falls because borrowers have the opportunity to lock in a relatively low rate on a fixed rate term. During the six months ended June 30, 1992, the Bank originated $2.0 million of ARMs. This figure represents 2.2% of total mortgage originations for the period. During the six months ended June 30, 1991, the Bank originated $3.4 million of ARMs which represented 8.3% of total mortgage originations for the period.

To complement ARM originations in the Company's local market, the Bank has acquired packages of adjustable rate mortgage-backed securities from the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") and the Government National Mortgage Association ("GNMA"). At June 30, 1992, $167.4 million or 44.8% of the Company's mortgage-backed securities had adjustable rates. Such securities assist in reducing interest rate risk, although periodic and lifetime interest rate adjustment "caps" contained in most of these securities limit the interest rate sensitivity of such securities in higher interest rate environments.

Franklin First continues to emphasize the originations of consumer loans, and, to a lesser extent, commercial real estate loans and commercial business loans. In general, consumer and commercial loans have shorter maturities and greater interest rate sensitivity than adjustable rate residential real estate loans since many consumer and commercial loans adjust almost immediately when the prime rate adjusts rather than at fixed anniversary dates ranging from one to three years as is the case for adjustable rate real estate loans. During the six months ended June 30, 1992, the Company originated $56.4 million of consumer loans, $.2 million of commercial real estate loans and $1.0 million of commercial business loans. This level of originations compares to originations of $34.4 million of consumer loans, $1.1 million of commercial real estate loans and $3.0 million of commercial business loans during the six months ended June 30, 1991.

As part of its strategy to decrease the Company's portfolio of long term fixed rate mortgages, the Company has begun the practice of selling certain fixed rate real estate loans in the secondary market. During the first six months of 1992, the Company sold approximately $45.0 million of these loans at a net gain of $679,000. The proceeds of these sales were used primarily to finance current lending activities. Such sales, in addition to aiding Franklin First's asset/liability management strategy, have contributed long-term value by increasing the portfolio of loans serviced for others, since it is the Company's policy to continue to service these loans. Fees generated from servicing these loans are a continuing source of non-interest income. Loans serviced for others amounted to $255.2 million at June 30, 1992 and provided approximately $203,000 of loan servicing fees for the six months then ended. At June 30, 1992 the Company had $13.3 million of long term, fixed rate mortgage loans held for sale.

Management believes, based on historical experience that a substantial portion of its passbook deposits and NOW checking accounts represent non-interest sensitive core deposits. Accordingly, Franklin First has sought to decrease the interest sensitivity of its liabilities by emphasizing passbook deposit accounts, and also by marketing long-term certificates of deposit with attractive rates and premiums and by using long term fixed rate borrowings from the FHLB. As of June 30, 1992, the Company's passbook deposits totaled $173.5 million (22.4% of total deposits) and NOW checking accounts totaled $79.7 million (10.3% of total deposits). At June 30, 1992, the Company has $120.6 million of certificates of deposit with maturities in excess of one year and $60.0 million of FHLB advances with maturities greater than one year.

The excess of interest-earning assets over interest-bearing liabilities which are expected to mature or reprice within a given period is commonly referred to as the gap ("GAP") associated with that period. A key measure of GAP for financial institutions is the one-year GAP. For a company with a negative one-year GAP, which is common among thrift institutions, the amount of income earned on its assets fluctuates less than the cost of its liabilities in response to the changes in prevailing rates of interest during the period. Accordingly, in a period of rising interest rates, companies with a negative one-year GAP will experience an increase in the yield on their assets less than the increase in the cost of their liabilities. Conversely, in a period of falling interest rates, companies with a negative one-year GAP face a decrease in the yield on their assets which is less than the decrease in the cost of their liabilities. The Company establishes a target one-year GAP which is reevaluated continuously. The establishment of this goal and the continued monitoring of the Company's asset/liability management efforts is the responsibility of the Asset/Liability Management Committee which meets at least monthly, and more often as circumstances warrant. The findings and recommendations of the Committee are reported to the Board of Directors on a regular basis. At the present time, management has set a goal for its one year gap not to exceed negative 15%.

As a result of the Company's asset/liability management efforts, the one-year negative GAP was 7.77% as of June 30, 1992, and 6.3% as of June 30, 1991 and never exceeded negative 10.0% at any quarter end during the past several quarters.

The following table sets forth detailed information concerning the Company's GAP position as of June 30, 1992:

	1 YEAR OR LESS	MORE THAN 1 YEAR TO 3 YEARS	MORE THAN 3 YEARS TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
	(Dollars in thousands)				
Interest-Earning Assets:					
Loans and mortgage-backed securities	$404,937	$253,575	$125,869	$207,374	$ 991,755
Other	51,943	4,374	702	12,230	69,249
Total Interest-Earning Assets	456,880	257,949	126,571	219,604	1,061,004
Interest-Bearing Liabilities:					
Deposits	441,892	143,633	70,943	117,094	773,562
Borrowings	101,446	60,000	-	39,436	200,882
Total Interest-Bearing Liabilities	543,338	203,633	70,943	156,530	974,444
GAP for the period	$(86,458)	$ 54,316	$ 55,628	$ 63,074	$ 86,560
Cumulative GAP	$(86,458)	$(32,142)	$ 23,486	$ 86,560	
Cumulative GAP as a percentage of total assets	(7.77%)	(2.89%)	2.11%	7.78%	

Lending Activities

The primary lending activity of the Bank is the origination of conventional loans (i.e., loans that are neither insured nor guaranteed in whole or in part by governmental agencies) secured by first mortgages on residential properties, principally one-to-four family owner-occupied residences. Offered rates for mortgage loans are adjusted periodically to be competitive in the Company's market area. Substantially all originated loans are located in the market area serviced by the Company's branches and offices. However, the Bank has general authority to originate and purchase loans secured by real estate throughout the United States.

The Company currently offers its customers fixed and adjustable rate first mortgage loans with maturities typically ranging from 15 to 30 years, and generally underwrites residential permanent mortgage loans in accordance with underwriting standards and requirements acceptable to both FNMA and FHLMC.

The following table sets forth detailed information concerning the composition of the Bank's loan portfolio as of the dates specified.

	June 30, 1992		December 31, 1991	
	Amount	%	Amount	%
Real estate first mortgage loans				
One-to-four family residential	$436,314	68.6%	$440,740	71.7%
Commercial and other	44,233	6.9%	44,272	7.2%
Total real estate first mortgage loans	480,547	75.5%	485,012	78.9%
Consumer Loans				
Home Equity	15,781	2.5%	16,517	2.7%
Auto	78,075	12.3%	54,916	8.9%
Education	4,627	.7%	4,252	.7%
Second mortgages	27,740	4.4%	25,607	4.2%
Savings account	5,800	.9%	6,848	1.1%
Other	7,531	1.2%	5,247	.8%
Total consumer loans	139,554	22.0%	113,387	18.4%
Commercial business loans	16,117	2.5%	16,464	2.7%
Total gross loans receivable	636,218	100.0%	614,863	100.0%
Less:				
Deferred loan fees	7,741		7,592	
Allowance for loan losses	9,684		8,847	
Loans receivable, net	$618,793		$598,424	

At June 30, 1992, first mortgage loans (including construction loans) secured by one-to-four family homes comprised approximately $436.3 million or 68.6% of the Bank's gross loan portfolio. Generally, these loans (other than construction loans) are fully amortized through equal monthly payments of principal and interest to their maturity. The Bank normally makes conventional first mortgage loans up to 80% of the independently appraised value or purchase price of one-to-four family dwellings, whichever is less. However, the Bank will originate mortgage loans on one and two family owner occupied residences up to 95% of the appraised value or purchase price if the borrower purchases satisfactory mortgage guarantee insurance.

Substantially all loans for construction are conventional mortgages made to individuals who are building homes for their own occupancy as primary or secondary residences. These construction loans typically provide for the payment of interest, but not principal, until the earlier of completion of the project or one year after the date of the loan closing. The loan proceeds are disbursed in increments as construction progresses and as warranted by inspections, conducted by an employee of the Bank or a qualified professional independent inspector. Thereafter, the loan, which generally begins as a fixed rate loan, automatically converts into an amortizing permanent mortgage loan which may be either a fixed or adjustable rate loan, with the Bank providing the long term financing.

Net loans receivable increased 3.4% or $20.4 million as of June 30, 1992 compared to December 31, 1991. Residential loan originations totaled $91.9 million for the six month period ended June 30, 1992 compared to $40.8 million for the six month period ended June 30, 1991. Franklin's position in the local lending market remains strong. Originations for the six month period ended June 30, 1992 increased 125.2% compared to originations for the same period during the preceding year. Although refinancing activity accounted for a significant percentage of the originations during the 1992 period, the increase in originations from period to period, excluding refinancing activity for both periods, totaled 31.7%. Overall, management expects that residential loan originations for the year ended December 31, 1992 will exceed originations during 1991.

In addition to the above, consumer loans increased by 23.1% from December 31, 1991 through June 30, 1992. Commercial business loans decreased 2.1% during the same period. The increase in consumer loans is primarily attributable to an increase in indirect auto loans. Approximately 40% of the indirect auto loans included in the increase are covered under repurchase provisions included in the Bank's agreements with local auto dealers. In addition, although the application is completed by the dealer, final approval of the loan is reserved for the Bank's loan underwriters.

Asset Quality

The Bank's Asset Classification Committee meets quarterly or more often as required and makes periodic reports and recommendations to the Board of Directors regarding loan loss allowances. The Committee considers each specific problem loan as well as general factors including the state of the economy in those areas where assets securing loans are located. It also considers risks associated with new business activities, such as the Bank's commercial and growing consumer loan programs. At such periodic reviews, the Committee can consider allocating general allowances or specific allowances if particular problems develop, increasing general and specific allowances or eliminating allowances if situations improve. Allowances may be increased in the future as Franklin First continues to grow and diversify its business and as the Committee continues to monitor the general economic circumstances in those areas where Franklin First's assets are located.

Allowance for loan losses: The Bank's policy is to maintain allowances for loan losses at a level believed by management to be adequate to absorb potential losses inherent in the loan portfolio. Management's determination of the adequacy of the allowance is the responsibility of the Asset Classification Committee and is determined quarterly based on a continuing evaluation of the portfolio, past loss experience, current and anticipated economic conditions and other factors deemed relevant. Additions to the allowances are charged to operations.

At June 30, 1992, the allowance for loan losses totaled $9.7 million or 1.52% of total gross loans receivable. Charge-offs, net of recoveries, totaled $504,000 for the six months ended June 30, 1992 and were 0.08% of average loans outstanding for the period.

At June 30, 1991, the allowance for loan losses totaled $8.7 million or 1.55% of total gross loans receivable. Charge-offs, net of recoveries, totaled $195,000 for the six months ended June 30, 1991 and were 0.04% of average loans outstanding for the period.

The following tables set forth certain information with respect to the Bank's allowance for loan losses and charge-offs:

	Quarter Ended June 30, 1992	1991
	(Dollars in thousands)	
Beginning balance, allowance for loan losses	$9,438	$8,374
Charge-offs, net of recoveries	(504)	(195)
Additions to provisions for losses	750	500
Balances at end of periods	$9,684	$8,679
Net charge-offs during the period as a percentage of average loans outstanding during the period	.08%	.04%

Allowance for Loan Losses:

	June 30, 1992		December 31, 1991	
	Amount	Percent of Total	Amount	Percent of Total
	(Dollars in thousands)			
Allocated to:				
Residential Real Estate Mortgage Loans	$1,201	12.4%	$ 888	10.0%
Commercial Real Estate Mortgage Loans	5,060	52.2%	5,701	64.4%
Commercial Business Loans	1,451	15.0%	740	8.4%
Consumer Loans	1,972	20.4%	1,518	17.2%
Total Allowance for Loan Losses	$9,684	100.0%	$8,847	100.0%

Non-Performing Assets: The following table presents information about the Company's non-performing assets for the period indicated.

	June 30, 1992	December 31, 1991
	(Dollars in thousands)	
Nonaccrual loans:		
Mortgage loans:		
Residential	$ 7,848	$ 7,159
Commercial	3,166	2,951
Commercial business loans	349	307
Consumer loans	505	544
Total non-accrual loans	11,868	10,961
Restructured:		
Commercial loans	5,525	7,991
Total non-performing loans	17,393	18,952
Real estate owned, net:		
In-substance-foreclosure	1,128	213
Other	3,699	4,285
Total non-performing assets	$22,220	$23,450
Non-performing loans as a percentage of gross loans receivable	2.7%	3.1%
Non-performing assets as a percentage of total assets	2.0%	2.2%

Non-performing assets are comprised of non-accrual and restructured loans, and real estate owned. Real estate owned is carried at net realizable value and includes real estate acquired in settlement of loans and real estate which is considered "in-substance foreclosed" as described in Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings."

Loans that become ninety days past due are classified as nonaccrual. An allowance is provided for the total amount of accrued interest on such loans and the provision is charged against interest income. In addition, loans less than 90 days past due are classified as nonaccrual if the financial condition of the borrower raises significant concern with regard to the ability of the borrower to service the debt in accordance with current loan terms (i.e., performing - non-performing loans). A loan remains in nonaccrual status until the factors which indicated doubtful collectibility no longer exist or until the loan is determined to be uncollectible and is charged off against the allowance for loan losses.

The Bank's lending activities for residential and commercial real estate and commercial business loans have traditionally been concentrated in its local market area which includes Luzerne County and other counties in Northeastern Pennsylvania including the Pocono Region. However, from time-to-time, the Bank has purchased loans located in Texas and other parts of the country. Substantially all of its consumer lending activities have been in its local market. Because economic conditions vary significantly throughout the country, the risks of lending in different geographic locations also varies significantly. Beginning in 1988, management concluded that the risk-return related to lending outside its local market did not warrant a continuation of such prior lending practices. Therefore, for the foreseeable future and depending upon current market conditions, except for work-out situations relating to loans and real estate owned in its portfolio, the Bank will no longer extend credit to borrowers outside its market area.

Texas Loan Portfolio:

At June 30, 1992, $16.4 million or 2.6% of the Bank's total gross loans receivable were located in Texas. Total non-performing loans in Texas were $5.9 million or 35.9% of the Texas gross loans receivable at June 30, 1992. Non-performing Texas loans totaled $8.3 million at December 31, 1991 and as a percentage of Texas gross loans receivable were 48.6%. Net real estate owned at June 30, 1992 in Texas totaled $4.2 million including $1.1 million classified as in-substance foreclosures. At June 30, 1992, the largest single loan in Texas had a $1.7 million principal balance.

All but one of the Texas loans were acquired prior to 1987, and all of these loans are being serviced for the Bank by unaffiliated servicers. The Bank carefully monitors the depressed state of the real estate market in Texas. Lessors in those areas face the dual risks of vacancies and tenant defaults. Because of a glut of available rental space, many landlords are offering bargain rental rates and other economic concessions. Therefore, even landlords of well located and maintained buildings have found it difficult to attract tenants for vacant space at satisfactory rentals and to retain existing tenants at acceptable rates when leases expire. Certain of the Bank's borrowers have been granted certain rate reductions or other economic concessions in order to assist them in meeting their mortgage obligations. This economic environment, in some cases, has resulted in negative cash flow from properties securing the loans. In some cases, the modifications made by the Bank follow concessions made by its borrowers to their tenants.

Investments and Mortgage-Backed Securities

The following table sets forth the composition of the Company's investment securities at the dates indicated.

	June 30, 1992		December 31, 1991	
	(Dollars in thousands)			
	Amount	% of Portfolio	Amount	% of Portfolio
Investment securities at book value:				
United States Government, federal agencies and government corporations	$ 9,735	69.5%	$47,292	91.9%
Corporate debt obligations	753	5.4%	664	1.3%
Municipal obligations	3,319	23.7%	3,324	6.4%
Other investments	194	1.4%	189	.4%
Total investment securities at book value	$14,001	100.0%	$51,469	100.0%
Total investment securities at market value	$14,183		$51,797	
Gross unrealized:				
Gains	$ 350		$ 377	
Losses	168		49	
Net unrealized gain	$ 182		$ 328	

The weighted average yield for the Company's investment portfolio was 7.53% as of June 30, 1992, compared to 7.46% as of December 31, 1991.

At the time of purchase, it is the Company's intent to hold investment securities to maturity based upon an evaluation of the probability of the ocurrence of future events. Should the actual occurence of events anticipated by the Company differ, in a substantial measure, from the Company's forecast, the Company's intent to hold investment securities to maturity may be reevaluated. Investment securities declined 72.8% or $37.5 million from December 31, 1991 to June 30, 1992. The decline was due primarily to the liquidation during January, 1992 of $27.9 million of U.S. Treasury Strips together with $9.7 million of FNMA Capital Debentures. These securities were classified as held for sale at December 31, 1991. When purchased, these securities had been classified as held for investment. However, due to the significant improvement in their market value during December, 1991 and concern about the continued market volatility of these securities, management decided to sell these securities and; consequently, transferred then to the held for sale category at December 31, 1991.

Mortgage-Backed Securities: At the time of purchase, it is the Company's intent to hold mortgage-backed securities to maturity based upon an evaluation of the probability of the occurrence of future events. Should the actual occurrence of events anticipated by the Company differ, in a substantial measure, from the Company's forecast, the Company's intent to hold mortgage-backed securities to maturity may be reevaluated. At June 30, 1992, the Company's investment of $373.6 million in mortgage-backed securities represented 33.7% of its total assets.

This portfolio consisted of securities issued and guaranteed by GNMA, FHLMC and FNMA, backed by both fixed rate and adjustable rate mortgages. Mortgage-backed securities, to the extent that they have adjustable rates, aid in the Company's asset/liability management.

At June 30, 1992 the market value of the Company's investment in mortgage-backed securities totaled $380.3 million resulting in an unrealized gain of $6.7 million. At December 31, 1991 the market value of the Company's investment in mortgage-backed securities totaled $336.3 million resulting in an unrealized gain of $8.7 million.

Deposits and Borrowings

Deposit inflows and outflows are influenced significantly by money market and general interest rate conditions, although the Bank has the ability to respond to market conditions through the pricing of deposit accounts. Scheduled loan payments are a relatively stable source of funds, whereas, loan prepayments are a more volatile source of funds. Borrowings may be used on a short-term basis to compensate for reductions in normal sources of funds or on a longer term basis to support expanded lending activities.

Deposits: The Bank maintains a stable base of core deposits. During the past five years, passbook accounts, which were paying 4.25% interest at June 30, 1992 and currently pay 3.75% interest, as a percentage of total deposits ranged from 19.17% to 22.44%. Other products include NOW checking accounts, money market deposit accounts ("MMDAs") and certificates of deposit ranging in terms from seven days to ten years, including $3.4 million at June 30, 1992 of certificates of deposit in denominations of $100,000 or more ("Jumbos"), and certificates designed for Individual Retirement Accounts and Keogh Plans. Management believes the Bank's core deposit base and overall variety of deposits have allowed the Bank to be competitive in attracting and retaining funds. In order to better align its rate structure with the rates predominate within its market area without decreasing its competitiveness, the Bank has decreased the rates paid on passbook accounts from 4.25% to 3.75% and from 4.00% to 3.25% on NOW checking accounts effective August 1, 1992.

Deposits increased 5.4% or $39.7 million during the six month period ended June 30, 1992; however, after considering interest credited to deposit accounts totaling $13.4 million, the net cash inflow for the period totaled $26.3 million. Deposits increased 4.9% or $32.4 million during the same period in 1991; however, after considering interest credited to deposit accounts during this period totaling $15.9 million, the net cash inflow for the period totaled $16.5 million.

The following table sets forth the principal classes of the Bank's deposits by average rate and amount.

	June 30, 1992		December 31, 1991	
	Average Rate	Amount	Average Rate	Amount
		(Dollars in thousands)		
Passbook Accounts	4.25%	$173,504	5.25%	$146,966
NOW Checking Accounts	4.00%	79,740	5.00%	75,987
Money Market Accounts	3.81%	93,808	5.00%	75,915
	4.07%	347,052	5.12%	298,868
Certificates of Deposit:				
Greater than $100,000	4.00%	3,350	5.49%	17,309
Other	6.19%	422,906	6.90%	417,386
	6.17%	426,256	6.84%	434,695
Total	5.23%	$773,308	6.14%	$733,563

Maturities on Certificates of Deposit Greater than $100,000 at June 30, 1992 are:

	(In thousands)
3 months or less	$3,010
3 to 6 months	224
6 to 12 months	116
Thereafter	-
Total	$3,350

Borrowings: The FHLB System functions as a reserve credit facility for thrift institutions and certain other home financing institutions. As a member of the FHLB System, the Bank is required to own capital stock in the FHLB of Pittsburgh and is authorized to apply for advances on the security of such stock and certain of its home mortgages and other assets (principally securities which are obligations of, or guaranteed by, the United States) provided certain creditworthiness standards have been met. Under its current credit policies, the FHLB System limits advances based on a member's assets, total borrowings and regulatory capital and expects members to maintain a reserve as a provision for unanticipated needs.

At June 30, 1992, FHLB of Pittsburgh advances to the Bank were $65.0 million. In addition, the Company has outstanding reverse repurchase agreements with the FHLB of Pittsburgh totaling $65.7 million at June 30, 1992.

The following table sets forth the borrowings of the Company at the dates indicated.

	June 30, 1992	December 31, 1991
	(Dollars in thousands)	
Advances from FHLB of Pittsburgh	$ 65,000	$ 66,000
Reverse repurchase agreements	96,446	91,725
Collateralized mortgage obligations	39,436	41,846
Advances on line of credit	-	3,000
Other (1)	8,395	14,069
Total	$209,277	$216,640

(1) Principally non-interest bearing cash disbursements to be funded at the Bank's depository bank.

Yield/Cost Analysis

The following table sets forth certain information relating to the Company's average Consolidated Statement of Financial Condition and reflects the weighted average yield on assets and weighted average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the weighted average balance of assets or liabilities, respectively, for the periods shown.

	Three Months Ended June 30,					
	1992			1991		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
Assets:						
Interest-earning assets:						
Loans	$ 625,290	$15,745	10.07%	$538,758	$13,952	10.36%
Mortgage-backed securities	376,111	6,794	7.23%	286,997	6,235	8.69%
Investments and other interest-earning assets(1)	45,289	652	5.76%	89,224	1,580	7.08%
Total interest-earning assets	1,046,690	23,191	8.86%	914,979	21,767	9.51%
Non-interest earning assets	55,387			47,660		
Total assets	$1,102,077			$962,639		
Liabilities and retained earnings:						
Interest-bearing liabilities:						
Deposits	$ 767,035	$10,071	5.27%	$686,709	$11,398	6.66%
Short-term borrowings	104,655	1,035	3.97%	79,922	1,157	5.81%
FHLB borrowings	65,000	1,105	6.82%	26,000	579	8.94%
Collateralized mortgage obligations	39,913	967	9.72%	44,317	1,059	9.59%
Total interest-bearing liabilities	976,603	13,178	5.43%	836,948	14,193	6.80%
Other liabilities	31,873			32,178		
Total liabilities	1,008,476			869,126		
Shareholders' equity	93,601			93,513		
Total liabilities and shareholders' equity	$1,102,077			$962,639		
Net interest income/rate spread		$10,013	3.43%		$ 7,574	2.71%
Net interest-earning assets/net yield on average interest-earning assets	$ 70,087		3.80%	$ 78,031		3.30%
Interest earning assets as a percentage of interest-bearing liabilities			107%			109%

(1) Includes stock in the FHLB of Pittsburgh and interest-bearing deposits in banks. Yields on tax-exempt obligations have not been computed on a tax equivalent basis.

Rate Volume Analysis

The table below sets forth certain information regarding the changes in the components of net interest income for the periods indicated. For each category of interest earning asset and interest bearing liability, information is provided on changes attributed to: (1) changes in rate (change in rate multiplied by old volume); (2) changes in volume (change in volume multiplied by old rate); (3) the total. The net change attributable to the combined impact of volume and rate has been allocated proportionately to the change due to volume and the change due to rate.

	Quarter Ended June 30,					
	1992 Compared to 1991 Increase (Decrease) Due to			1991 Compared to 1990 Increase (Decrease) Due to		
	Rate	Volume	Total	Rate	Volume	Total
Interest income on interest-earning assets:						
Loans	$(378)	$ 2,171	$1,793	$(392)	$1,067	$ 675
Mortgage-backed securities	(659)	1,218	559	(61)	1,746	1,685
Investment securities and other investments	(255)	(673)	(928)	(226)	(570)	(796)
	(1,292)	2,716	1,424	(679)	2,243	1,564
Interest expense on interest-bearing liabilities:						
Deposits	(3,019)	1,692	(1,327)	(512)	746	234
Short-term borrowings	(5,278)	5,156	(122)	(67)	707	640
FHLB borrowings	(99)	625	526	-	-	-
Collateralized mortgage obligations	15	(107)	(92)	7	(97)	(90)
	(8,381)	7,366	(1,015)	(572)	1,356	784
Net change in net interest income	$ 7,089	$(4,650)	$2,439	$(107)	$ 887	$ 780

Results of Operations:

General: Net income increased for the six and three month periods ended June 30, 1992 by 56.7% to $5.8 million and by 84.4% to $3.3 million, respectively, over the comparable periods ended June 30, 1991. The increases were due principally to increases in net interest income and other fees and charges net of increases in the provision for loan losses and in operating expenses. Core earnings, defined as net interest income before provision for loan losses plus fee income less operating expenses and excluding any gains or losses on the sale of loans, mortgage-backed securities or investments, increased 41.6% to $10.4 million and 45.1% to $5.6 million for the six and three month periods ended June 30, 1992 compared to the same periods for 1991.

Net interest income: Net interest income for the six and three month periods ended June 30, 1992 increased 29.6% or $4.4 million and 32.2% or $2.4 million, respectively, over the comparable periods ended June 30, 1991. The increases are attributable to a decrease in the cost of interest bearing liabilities offset by a decrease, to a lesser degree in the yield of interest earning assets, coupled with increases in the volume of loans and the portfolio of mortgage-backed securities. (Refer to the Yield/Cost Analysis for additional information).

Provision for loan losses: The provision for loan losses totaled $1.5 million and $.8 million for the six and three month periods ended June 30, 1992 compared to $1.0 million and $.5 million for the six and three month periods ended June 30, 1991, respectively. Management considers numerous factors in determining the provision for loan losses including loss experience, economic conditions and estimated collateral value. The increase in the provision for loan losses during the first and second quarters of 1992 was the result of this ongoing evaluation with particular emphasis on the recent recession and the potential impact on the real estate market. At June 30, 1992, the allowance for loan losses (excluding interest in arrears of $1.1 million which is accrued as income and offset by a 100% allowance) totaled $9.7 million (1.5% of gross loans receivable) which included $1.6 million in specific allowances related to particular loans and $8.1 million in general allowances. At June 30, 1991, the allowance for loan losses totaled $8.7 million (1.6% of gross loans receivable). For additional information see Asset Quality section.

Other income: Total other income for the six and three month periods ended June 30, 1992 compared to the same periods ended June 30, 1991 increased to $2.5 million and $1.6 million from $1.1 million and $.3 million, respectively. Other fees and charges for the six and three month periods increased 29.8% and 29.6% over the prior years' periods primarily as a result of changes to and increases in the Bank's service fee structure which were implemented during February 1992. Management is committed to an ongoing analysis of customer services, related fees and charges for the purpose of enhancing fee income and thereby offsetting the Company's exposure to income fluctuations arising from changing interest rates. The increase in net gain (loss) from the sales of loans, mortgage-backed securities and investments for the six and three month periods was due primarily to the substantial increase in the gain on sales of loans realized as a result of increased secondary marketing activity during 1992.

Other expense: Other expenses for the six and three month periods ended June 30, 1992 increased 19.7% or $1.7 million and 20.3% or $.9 million, respectively, over the comparable periods ended June 30, 1991. The operating expense categories that exhibited the most significant increases were marketing, SAIF insurance and other expenses. Marketing expense increased 86.9% to $.8 million for the six months ended June, 1992 and 146.2% for the quarter ended June, 1992 compared to the same periods ended 1991 as a result of the efforts to increase the Bank's media exposure during 1992. The 11.7% increase in SAIF insurance expense for the six and three month comparative periods was the result of increased deposits between periods. Other expenses increased 43.9% and 43.3% for the six and three month comparative periods, respectively, as a primary result of increases in the general reserve for Real Estate Owned and in professional services.

Income tax expense: The effective income tax rates for the 1992 and 1991 periods were approximately 40% and 39%, respectively.

In early 1992, Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), was issued. SFAS 109 changes the method of accounting for income taxes. Adoption of SFAS 109 is required for fiscal years beginning after December 15, 1992, with earlier adoption permitted. The Company has not yet fully determined the impact of the adoption of SFAS 109 on results of operations. However, management does not anticipate that the adoption of SFAS 109 would have a material effect on the Company's financial condition.

Part II. Other Information

Item 1. Legal Proceedings
The Company is not involved in any pending legal proceedings, other than proceedings undertaken in the ordinary course of business which are not believed to be material to the financial condition of the Company.

Item 2. Changes in Securities
NONE

Item 3. Defaults on Senior Securities
NONE

Item 4. Submission of Matters to a Vote of Security Holders
(a) An annual meeting of the Shareholders of the Company was held on April 22, 1992.
(b) Omitted pursuant to instruction 3.
(c) No other matters were voted upon at the meeting.
(d) NONE

Item 5. Other Information
NONE

Item 6. Exhibits and Reports of Form 8-K
(a) NONE
(b) Form 8-K, Filed May 21, 1992.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: FRANKLIN FIRST FINANCIAL CORP.

BY: /s/ Thomas H. van Arsdale
Thomas H. van Arsdale, President
and Chief Executive Officer

Dated: August 13, 1992

/s/ Richard F. Mebane
Richard F. Mebane, Principal
Financial Officer, Treasurer

Dated: August 13, 1992